

Lunch & Learn: Municipal Finance 101



Welcome to Numbers & Nachos!

Presented by City of Bryan Fiscal Services

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Numbers and Nachos!

Municipal Finance – 101

- How municipalities track and report costs – Fund Accounting
- Brief overview of the year end reporting and audit process
- What is Operating Cash and how much is enough?
- Why municipalities issue debt
- What is the City of Bryan's credit rating? – What does that mean?

Municipal Finance – 101

The City of Bryan has two major documents pertaining to the City's finances

- The Comprehensive Annual Financial Report – AKA: The “CAFR”
- The City of Bryan Fiscal Year Adopted Budget

2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

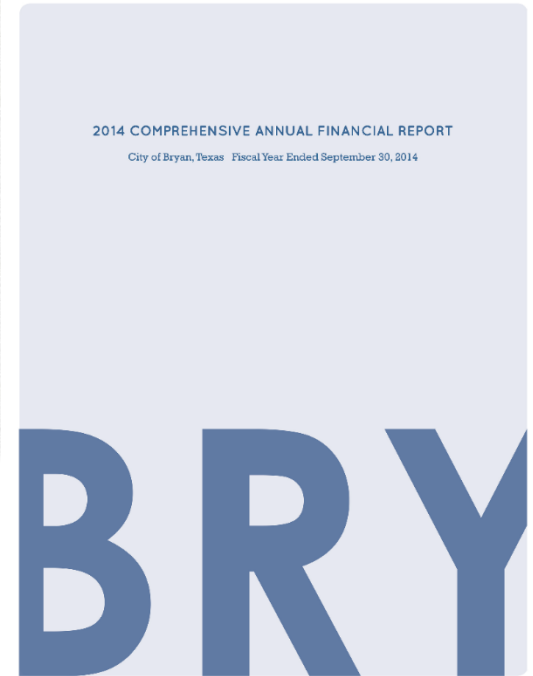
City of Bryan, Texas Fiscal Year Ended September 30, 2014

BRYAN



What is the CAFR?

- The CAFR is a document that the City is required to produce every year.
- Reports the City's financial activities from the preceding fiscal year and is presented in GAAP (Generally Accepted Accounting Principals) format as promulgated by the Governmental Accounting Standards Board (GASB).
- The City's financial information is presented in two ways:
 1. Government Wide Financials
 2. Fund Financial Statements – “Fund Accounting”.
- The CAFR can be found online here:
<http://www.bryantx.gov/fiscal-services/>



What is the Adopted Budget?

- The Adopted Budget is another document that the City is required to produce every year.
- Reports the City's financial activities from the preceding fiscal year, current year projections, and the adopted budget for the next fiscal year.
- The Adopted Budget document is a very user friendly format and is intended for:
 - The public
 - Management
 - Anyone interested in learning more about Bryan, TX
- The Adopted Budget can be found online here:
<http://www.bryantx.gov/fiscal-services/>



Selecting an Auditor – The Audit Process

- According to State Statute (Texas Local Government Code Sec. 103.003) and the City of Bryan Charter (Section 5 – City Council), the City is required to produce audited financial statements every year.
- The audit firm is chosen through a Request for Qualifications (RFQ) process.
- The audit firm is approved by City Council for an initial term (usually 2 years) with a possible extension for up to 5 years in total. At this stage, the RFQ process is repeated.

Audited Financials – It's the Law

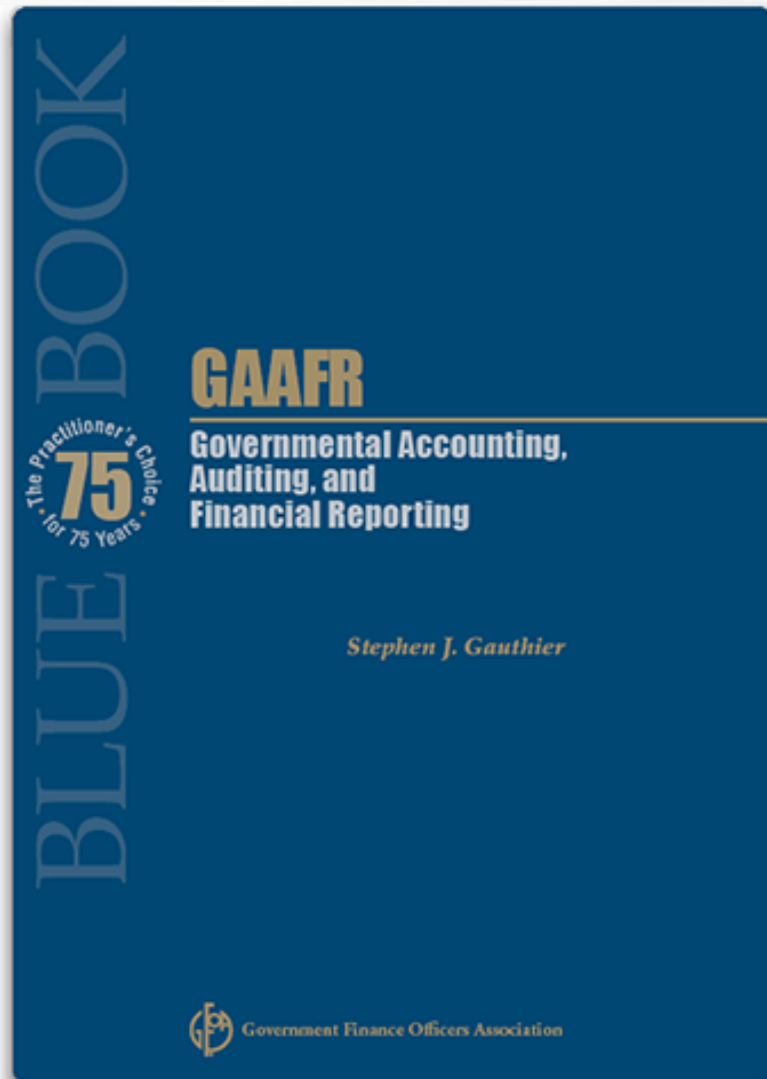
What happens during the City's annual audit? How long does it take? Who is involved?

- In July, the audit firm begins interim fieldwork
- At Fiscal Year End, Staff compiles over 100 different schedules used by the audit firm – This process takes approximately 60 days to complete
- Final Audited financials must be on file with the City Secretary on or before March 31

Audited Financials – It's the Law

What are the results of an audit? What does the auditor's opinion on our financial statements mean?

- A final audit report can have several results, all of which have a significant impact on the City
 - Un-modified opinion: “Clean Audit Opinion”
 - Modified opinion
 - Disclaimer or Adverse opinion



Fund Accounting:

“How much money did we make?”

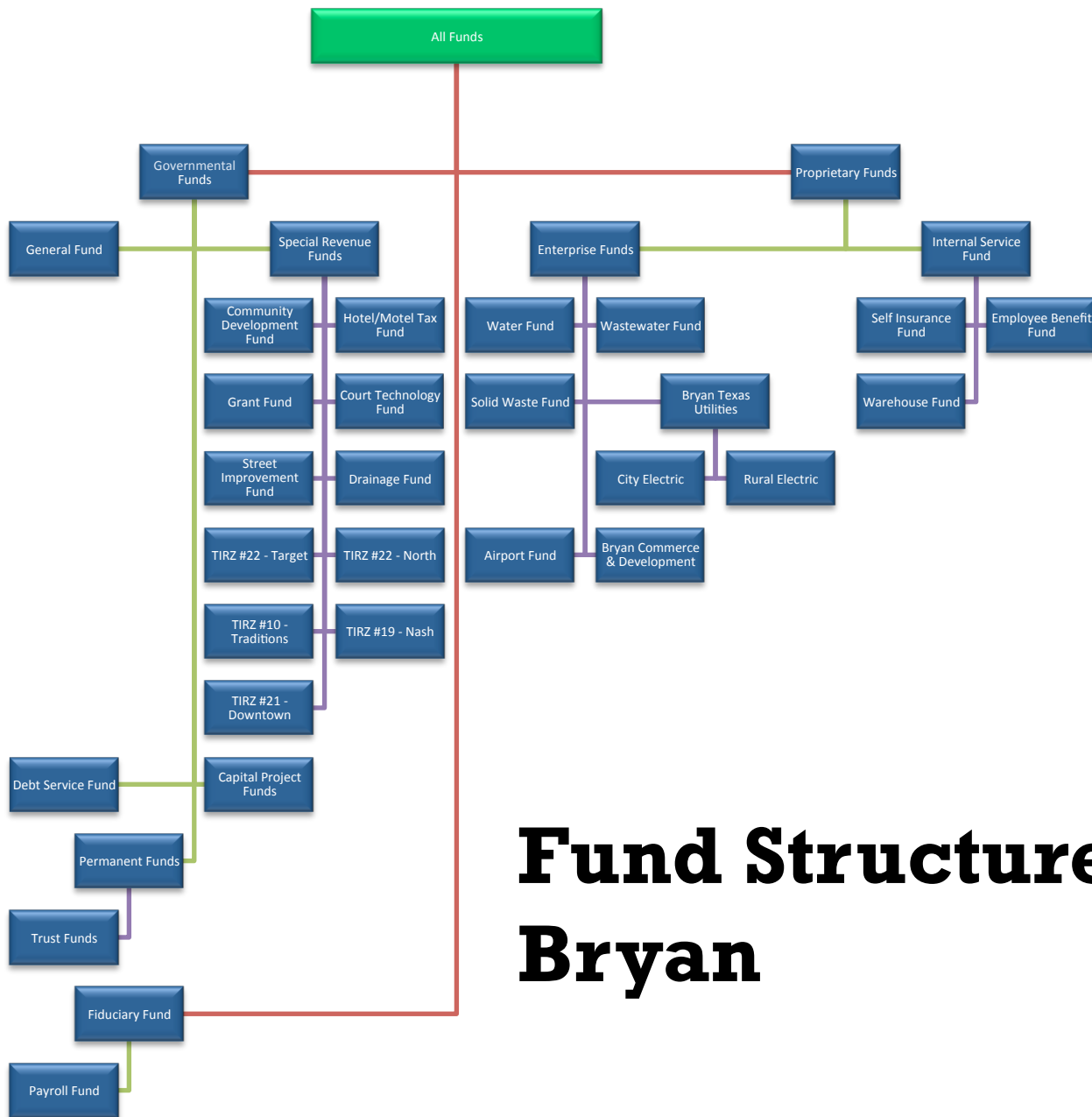
VS

“How did we spend the money?”

What is a “Fund”?

Municipal Finance is organized and reported on the basis of funds (Fund Accounting).

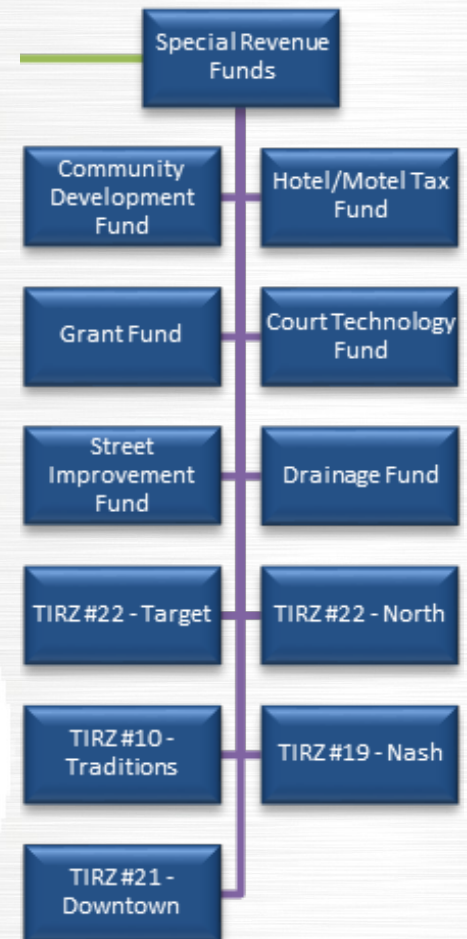
- A fund is used to separately identify activities that citizens want their City to engage in
- Fund accounting allows for accountability
- Some funds are established by law.
 - General Fund
 - Debt Service Fund
 - Utility Funds
- Other funds are created at the discretion of City Council based on the activities of the City
 - Capital Reserve Fund
 - Oil and Gas Fund



Fund Structure – City of Bryan

Governmental Funds

- Governmental Funds we will discuss today:
 - General Fund – all activities that are not required to be accounted for in other fund types
 - Special Revenue Funds
- Tax Increment Financing or Reinvestment Zones (TIRZ) are considered Special Revenue Funds and as such, are accounted for using Fund Accounting



Fund Accounting

What is Fund Accounting? Why is it used, and what makes it different from other financial accounting reporting models?

“What is really needed ... is some tool for organizing and presenting data about financial resources that highlights the fact that certain resources have been ‘segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.’ For state and local governments, that tool is *fund accounting*.”

-Gauthier, Stephen J. *Governmental Accounting, Auditing, and Financial Reporting*. Chicago, IL: Government Finance Officers Association, 2012. 16. Print.

When you think of Fund Accounting, think of your checking account!



Fund Accounting

Think of a fund as your checking account:

1/1/2016	My Checking Account
Beg Bal @ 1/1/16	<u>\$ -</u>
Deposits	1,000
Withdrawals	(750)
End Bal @ 1/31/16	<u><u>\$ 250</u></u>

What does the \$250 balance tell me? What does the \$(750) represent?
What about the \$1,000?

Fund Accounting

Governmental financial statements are compiled and reported to answer three basic questions:

1. Where did the funds come from?
2. What activities did we spend funds on this year?
3. Do we have enough funds to meet our obligations next year (what do we have left)?

If we want to know other types of information, we need to look at the information in a different way!

Fund Accounting – The Car Loan Example

The Car Loan Example (\$10,000 car – 5% interest rate 24 Months):

- Apply to the bank
- Bank approves
- Bank pays the dealer

3/1/2016-2/1/2018	My Bank Account		
Beg Bal	\$ -	Principal - Price of Car	\$ (10,000)
Deposits	10,529	Interest Costs	\$ (529)
Car Payments to bank	(10,529)		
Ending Balance	\$ -		

Fund Accounting – It's a little more complicated

The Car Loan Example (\$10,000 car – 5% interest rate 24 Months):

2/1/2016	My Bank Account	3/1/2016-2/1/2018	My Bank Account
Beg Bal	\$ -	Beg Bal	\$ -
Loan from Bank for Car	10,000	Deposits (salary)	10,529
Check written to seller	(10,000)	Car payments to bank	(10,529)
Ending balance	\$ -	Ending balance	\$ -

2/1/2016-2/1/2018	My Bank Account	Principal - Price of Car	\$ (10,000)
Beg Bal	\$ -	Interest Costs	\$ (529)
Loan from Bank for Car	10,000	Total Deposits	\$ 20,529
Deposits (salary)	10,529	Total Withdrawals	(20,529)
Check written to seller	(10,000)	Net Cash Flow	\$ -
Car Payments to bank	(10,529)		
Ending Balance	\$ -		

Fund Accounting

- What were total withdrawals (spending activities)?: \$20,529
- What did the car cost? Because of the nature of Fund Accounting, it is very difficult to tell what the car actually cost without looking closer at the numbers!

2/1/2016-2/1/2018	My Bank Account
Beg Bal	\$ -
Revenues	20,529
Expenditures	(20,529)
Ending Balance	\$ -

2/1/2016	My Bank Account
Beg Bal	\$ -
Loan from Bank for Car	10,000
Check written to seller	(10,000)
Ending balance	\$ -

2/1/2016-2/1/2018	My Bank Account
Beg Bal	\$ -
Loan from Bank for Car	10,000
Deposits (salary)	10,529
Check written to seller	(10,000)
Car Payments to bank	(10,529)
Ending Balance	\$ -

3/1/2016-2/1/2018	My Bank Account
Beg Bal	\$ -
Deposits (salary)	10,529
Car payments to bank	(10,529)
Ending balance	\$ -

Principal - Price of Car	\$ (10,000)
Interest Costs	\$ (529)
Total Deposits	\$ 20,529
Total Withdrawals	(20,529)
Net Cash Flow	\$ -



Operating Cash:

What do we have left?



Operating Cash – Fund Balance

What is Operating Cash?

- The amount of unencumbered and unrestricted funds available to the City to meet its obligations – in other words, the unassigned Fund Balance!
- What is the right amount?
 - Enough to ensure that if a negative event occurs public services can continue and obligations can be met in the short term.
 - Not too much, it is taxpayer funds!
- Credit Rating Agencies also influence cash levels.

Operating Cash – Fund Balance

What is an appropriate amount to keep in reserve?

- City Council has determined that the City must keep at a *minimum* 60 days of operating expenses reserved in the General Fund with a target of 100 days
- Because of different demands on funding other funds have different balance requirements. For example:
 - BTU City – 90 days minimum
 - BTU Rural – 45 days minimum
 - Water and Waste Water – 60 days minimum
 - TIRZ Funds - \$50,000 target balance
 - Debt Service Fund – 1/12th of annual debt service

Operating Cash

Remember the three basic questions?

1. Where did the funds come from?
2. What activities did we spend funds on this year?
3. Do we have enough funds to meet our obligations next year (what do we have left)?

Let's look at the General Fund!

Operating Cash – Fund Balance

CITY OF BRYAN, TEXAS General Fund Summary Fiscal Year 2013

	FY2013 Actual
<u>Revenues</u>	
City Sales Tax	\$ 15,984,919
Property Tax	16,437,819
Franchise Fees	2,108,521
Licenses & Permits	565,539
Grants	1,028,040
Charges for Services	5,199,123
Fines	1,794,775
Miscellaneous & Shared Taxes	1,047,051
Oil & Gas Royalties & Leases	125,027
Land/Property Sales	1,293,141
Subtotal Revenues	45,583,955
ROW Pmts	10,800,456
Transfers In	6,684,956
Total Revenues, Transfers & ROW	63,069,367

Where the money
came from

Operating Cash – Fund Balance

Operating Expenditures

Public Safety	28,931,067
Public Works	4,527,031
Development Services	1,802,493
Community Services	6,720,636
Support Services	6,662,789
General Administration	7,742,216
Administrative Reimbursements	(3,425,498)
Total Expenditures:	<u>52,960,734</u>

Non Operating Expenditures

Economic Development and Land Sale	3,790,562
Transfer to Oil & Gas Fund	-

Total Expenditures	<u>\$ 56,751,296</u>
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Net Increase/(Decrease)	6,318,071
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Beginning Fund Balance	16,142,815
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Ending Fund Balance	22,460,886
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Reductions for Encumbrances and Other

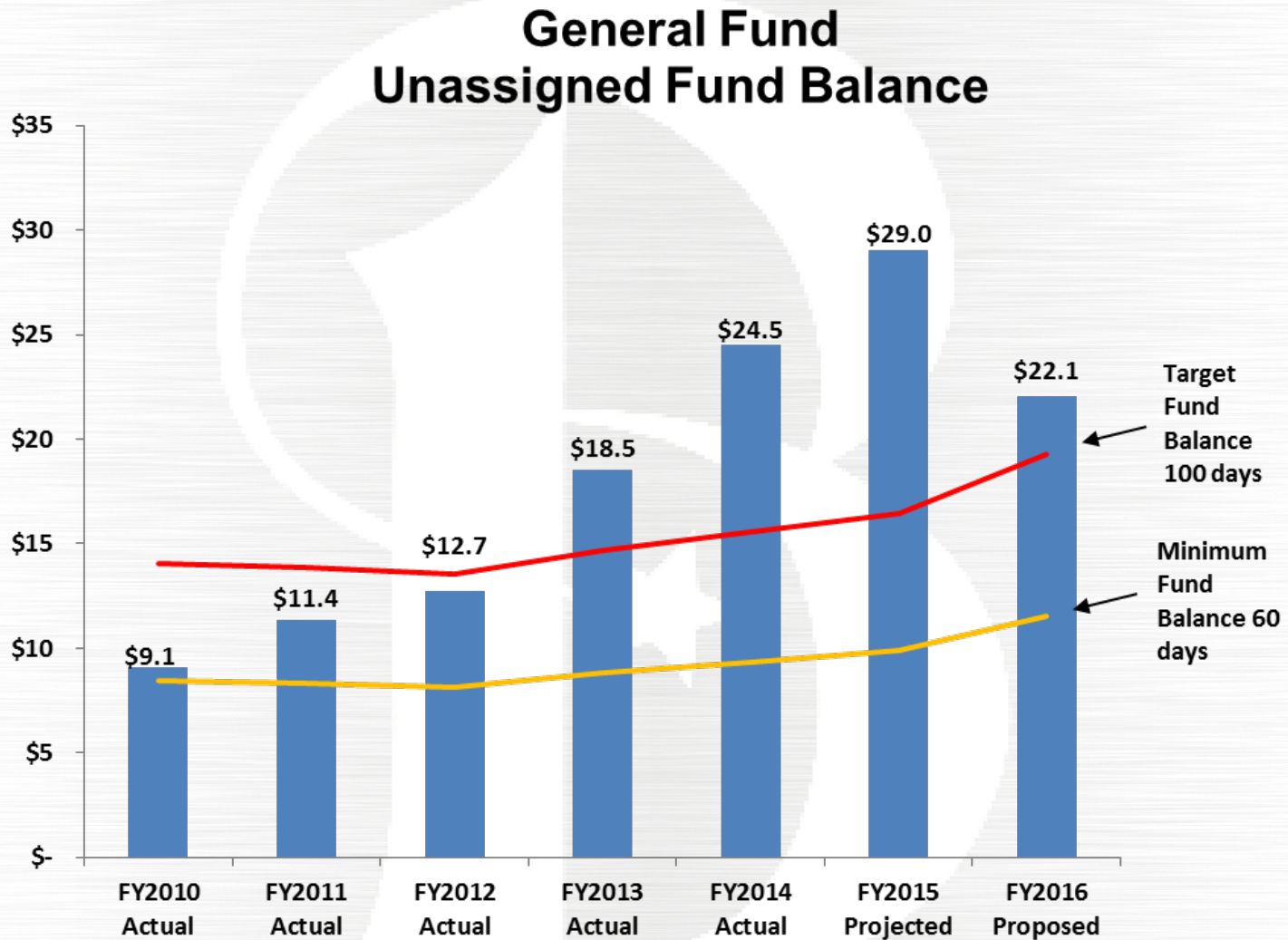
Encumbrances and Assignments	(974,951)
Spending Against Restricted Funds	(2,938,240)
Ending Unassigned Fund Balance	<u>\$ 18,547,695</u>

# of Days of Reserve	126
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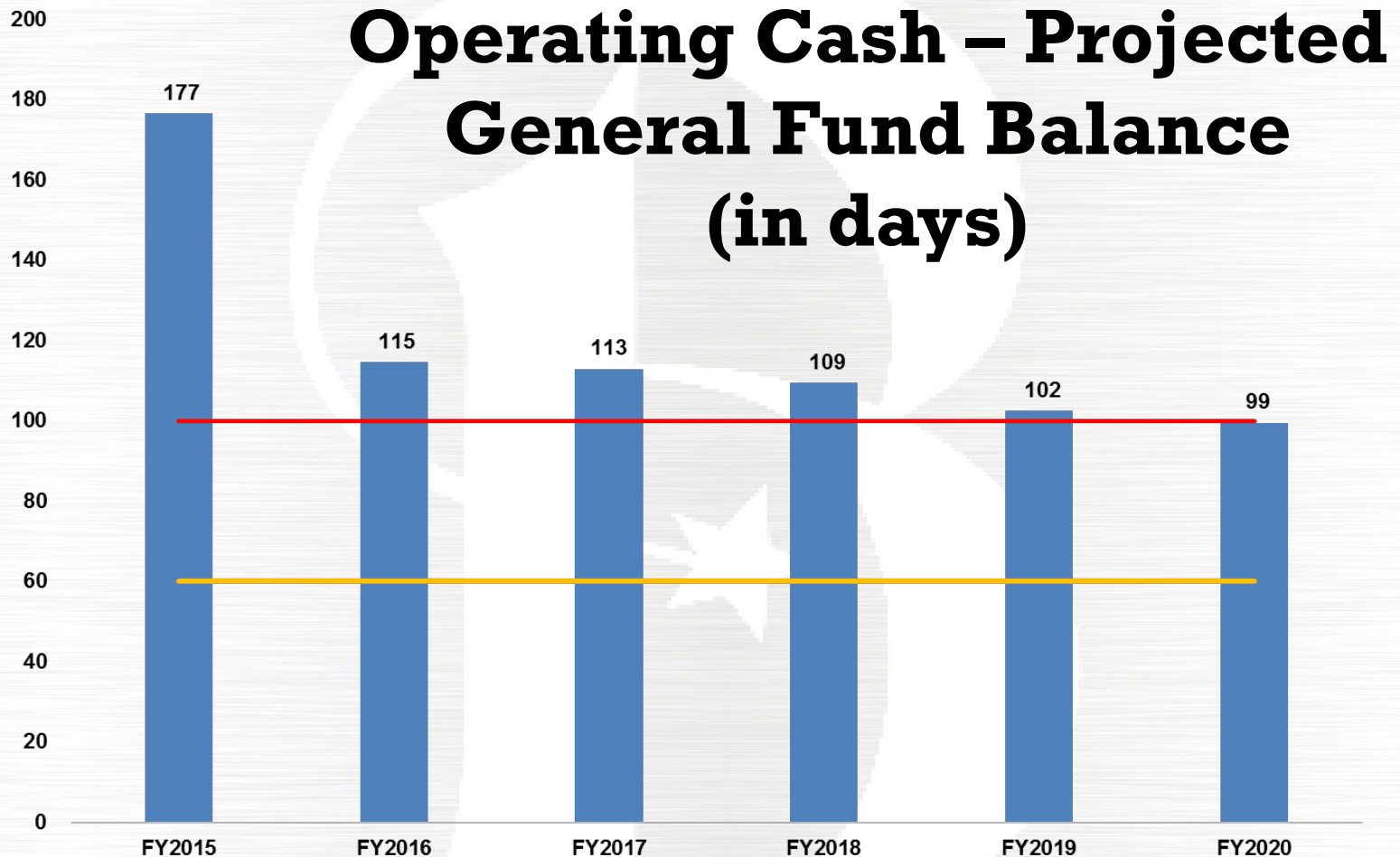
Spending Activities

What's left

Operating Cash – Fund Balance

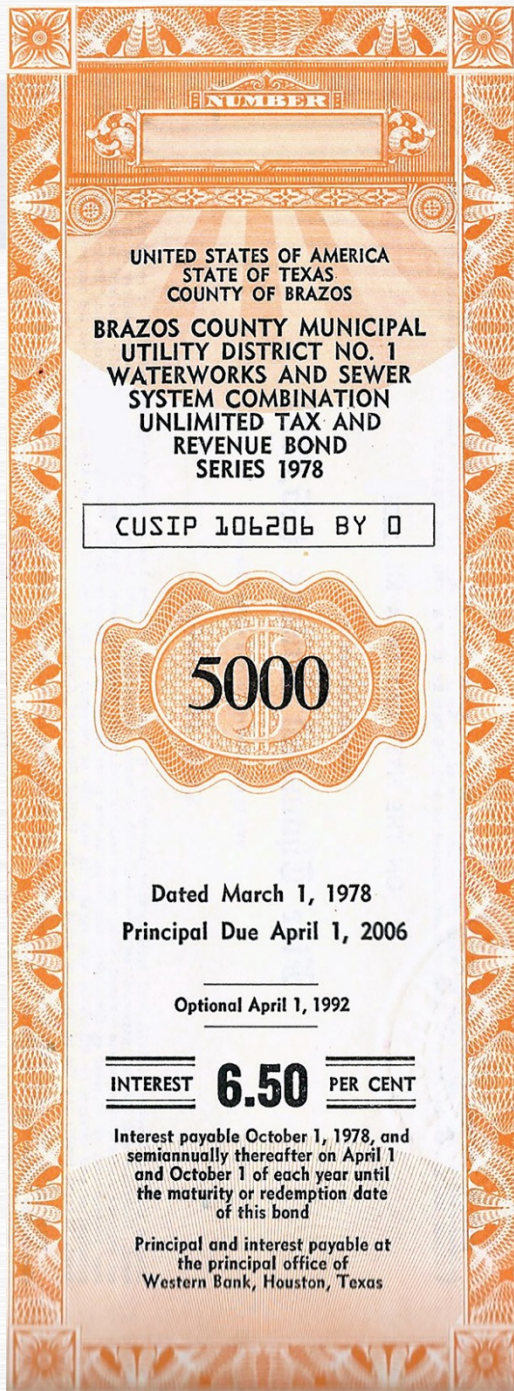


Operating Cash – Fund Balance



Issuing Debt:

Municipal Bonds

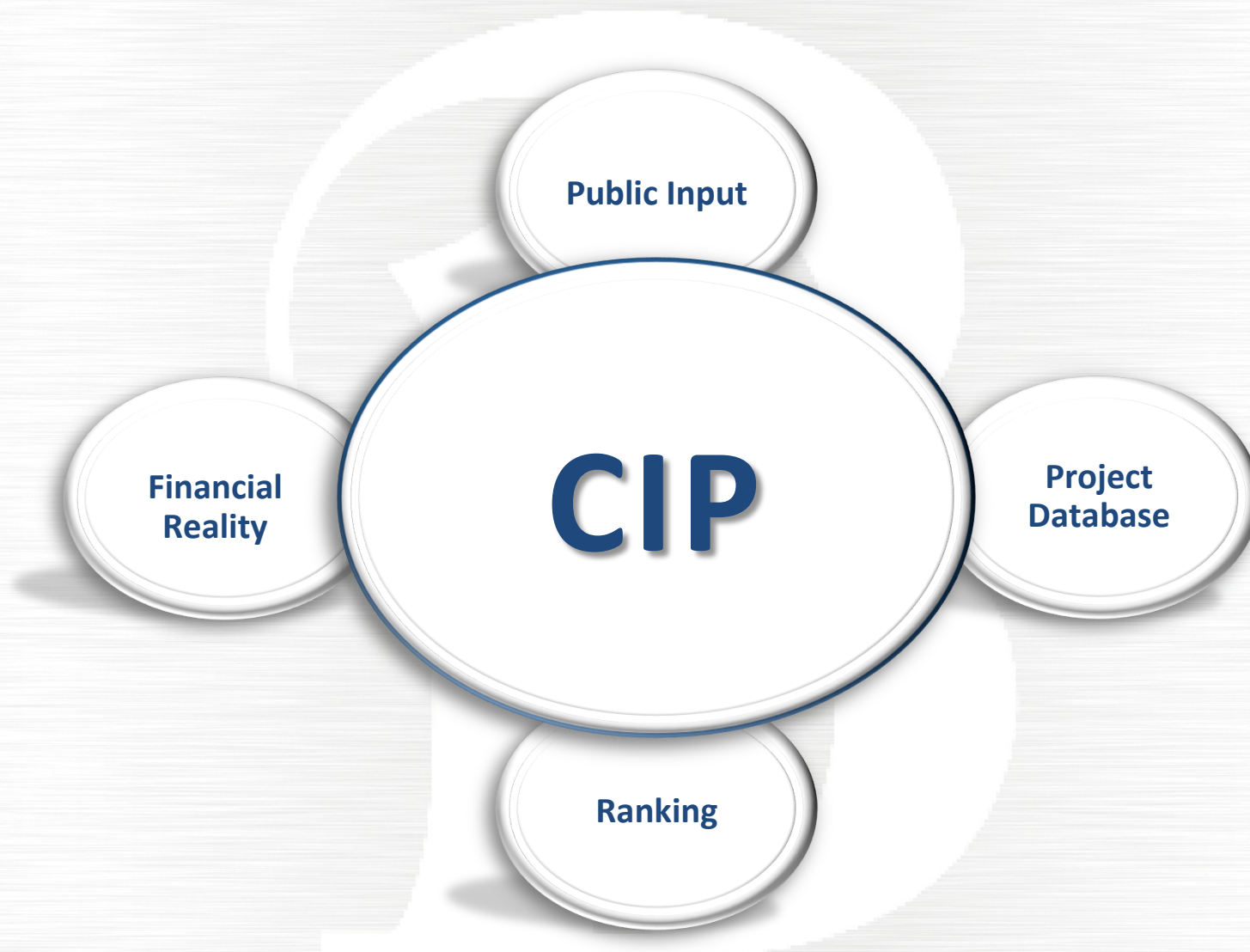


Issuing Debt

The City of Bryan has many capital needs. These needs are prioritized through the Capital Improvement Plan (CIP).

- Every two years, the City Council and Staff evaluate capital needs. During this process last year, the City identified over \$650 million in capital projects
- The City can only afford to issue a total of \$32 million in debt between now and FY 2020 without affecting tax rates.
- This gap creates a need for a process to determine the priorities regarding issuing debt, CIP expenditures, and future CIP needs
- Matches the cost of the project to the citizens use – in other words, those that use the

Issuing Debt – The CIP Process



Issuing Debt

Cities issue debt for many reasons:

- Capital Improvement Program
 - Old Hearne Road
 - South Coulter
 - South College Ave
 - West 28th Street
 - Fire Engines
 - Fire Station No. 2
- Major equipment and vehicle purchases
- Major infrastructure improvements and maintenance



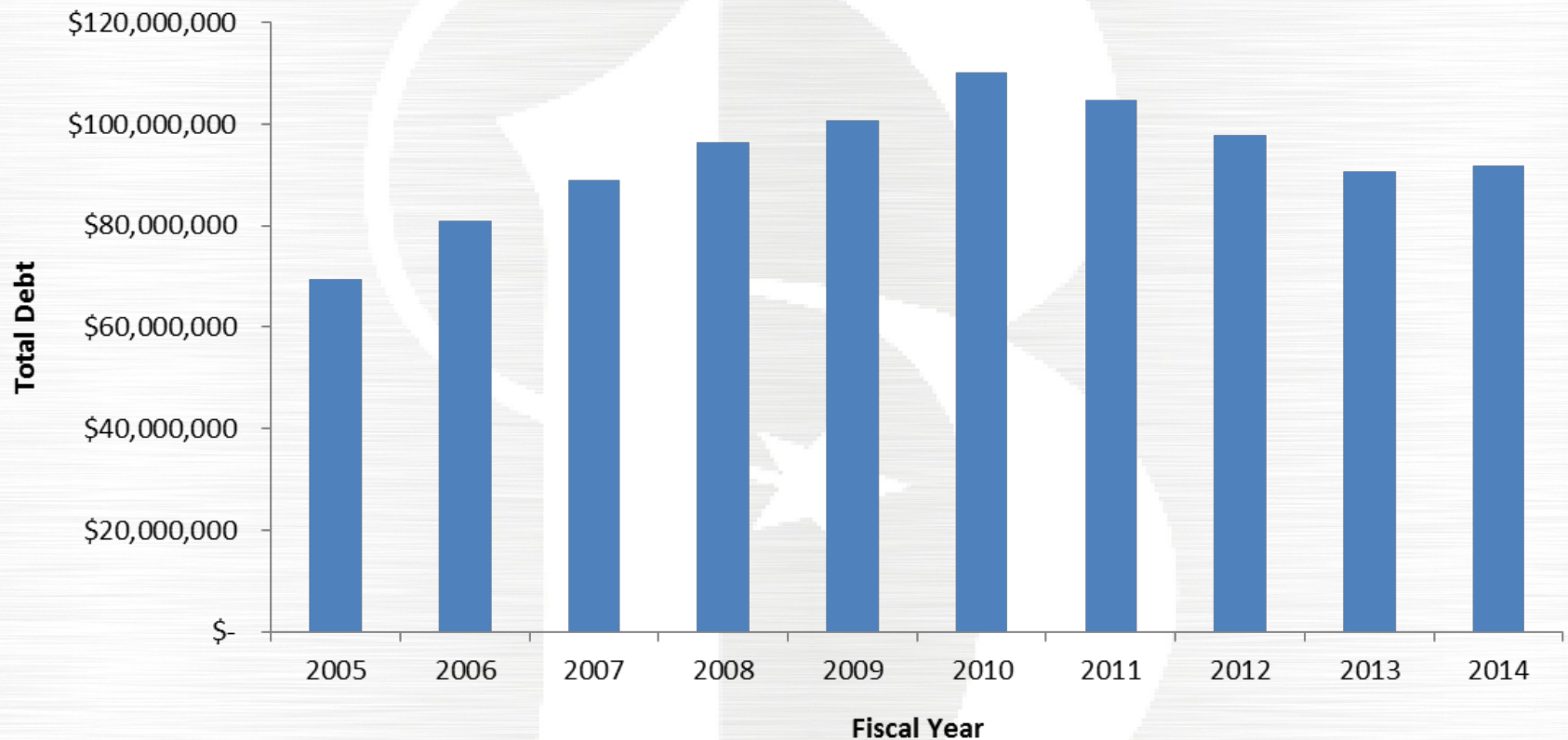
Issuing Debt

When the City of Bryan borrows money or “issues debt” that simply means that the City sells municipal bonds.

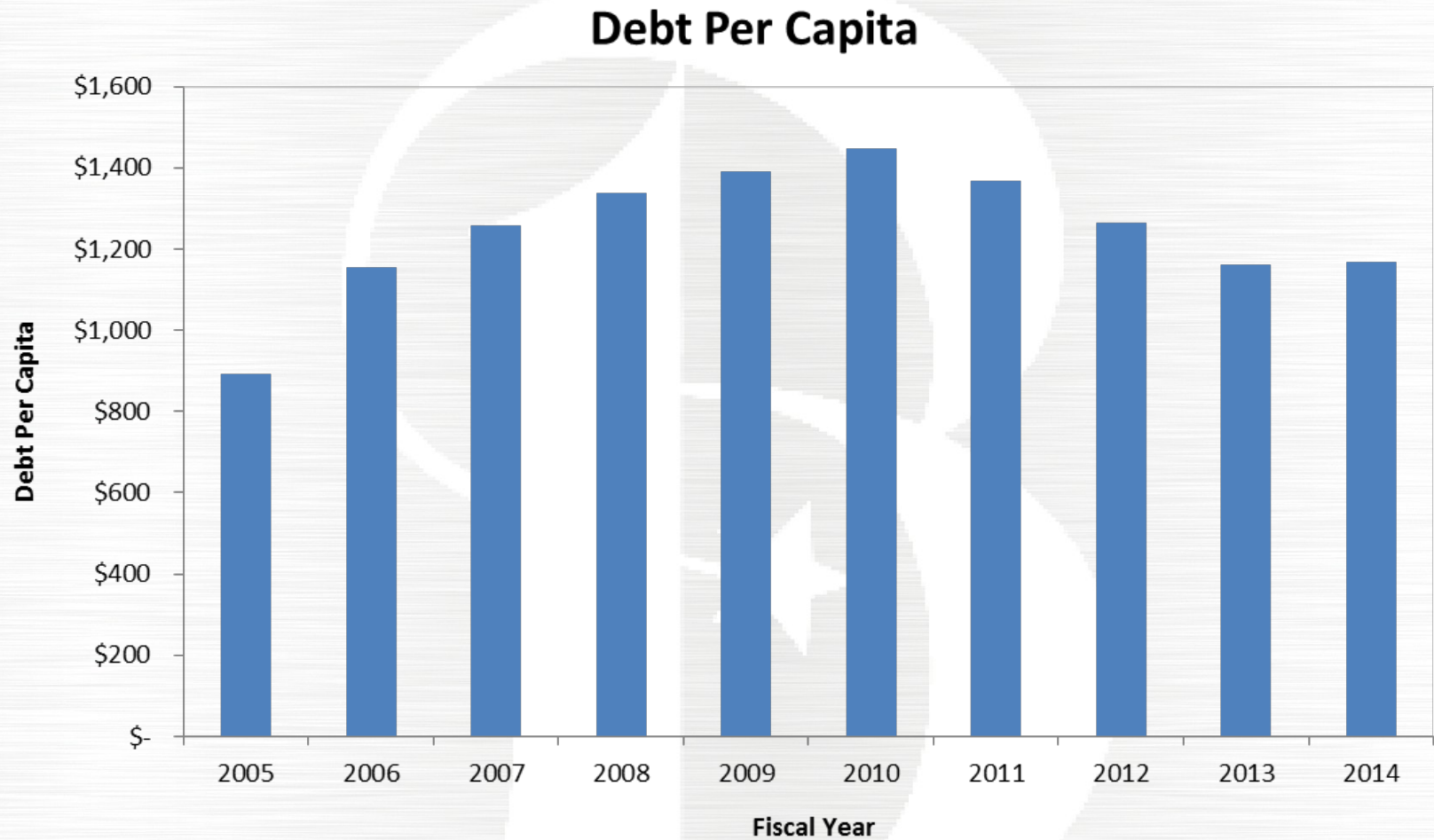
- Bonds are instruments in which an investor loans money to an entity which borrows the funds for a defined period of time.
- The issuer (the City) agrees to pay back the principal plus an amount of interest over a period of time, usually 10 – 25 years.

Issuing Debt

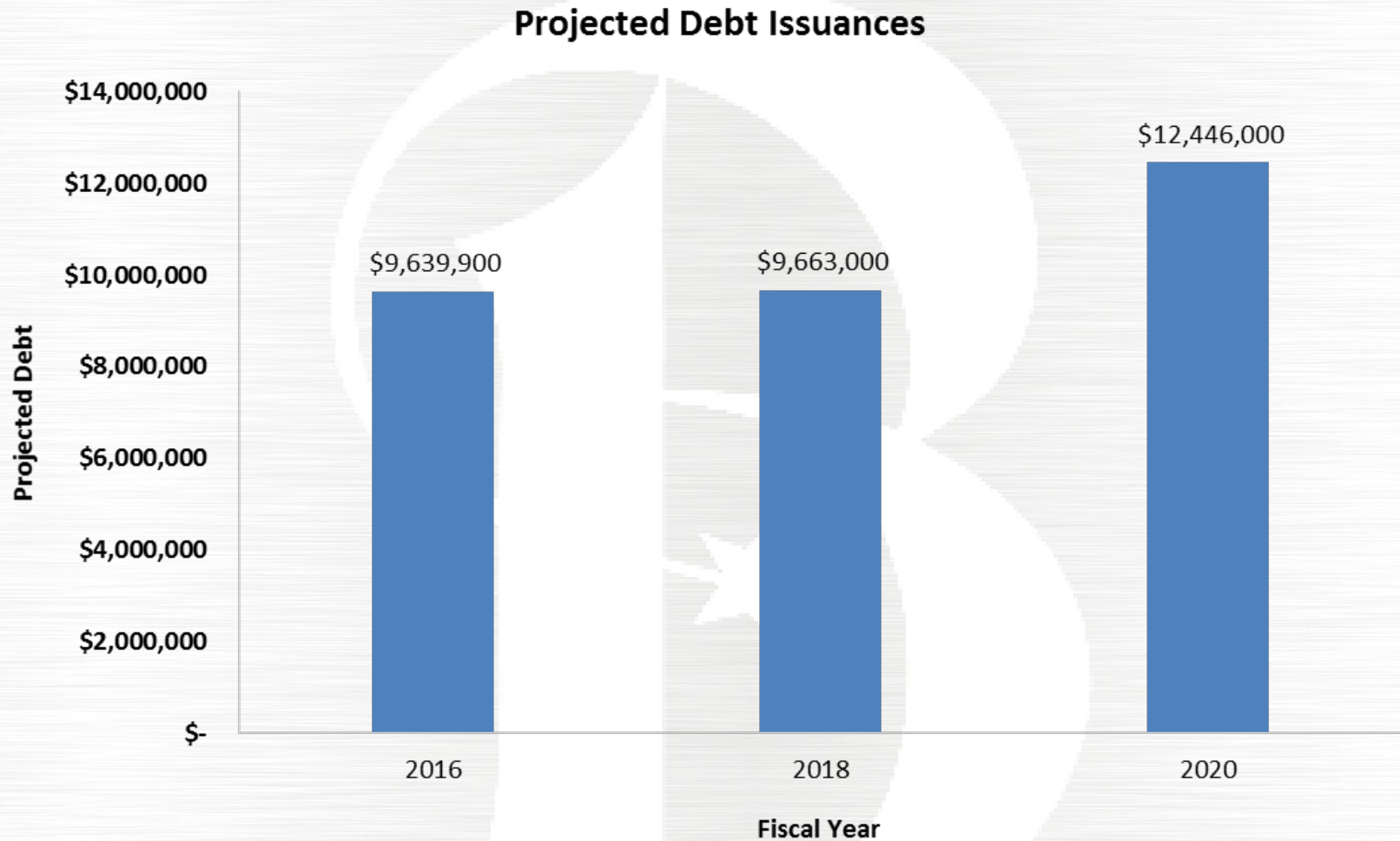
Total Governmental Debt by Year



Governmental Debt per Capita



Projected Debt Issuance 2020



Credit Rating



A credit rating for a City is very similar to a consumer credit score: the higher your credit score (or credit rating for a city), the lower the interest you will pay.

Credit Rating

Rating Agency	General Obligation	BTU	Water/ Wastewater
Moody's	Aa2	A2	Aa2
Standard & Poor's	AA	A+	AA-
Fitch	NR	A+	NR

Credit Rating (S&P)

AAA

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB; B; CCC; CC; and C

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

D/NR

Credit Rating

A ½ of 1 percent difference in borrowing rates can save (or cost) the City over \$800,000 in interest cost over the life of a \$10,000,000 borrowing.

Credit Rating – S&P Criteria

Institutional Framework 10%	Economy 30%	Management 20%	Financial Measures			Debt and Contingent Liabilities 10%
			Liquidity 10%	Budgetary Performance 10%	Budgetary Flexibility 10%	

Indicative Rating

Positive Overriding Factors

- High income levels (one or two notch)
- Sustained high fund balances (one notch)

Negative Overriding Factors

- Low market value per capita(one notch)
- Low nominal fund balance (one notch)
- Weak liquidity (caps rating at BBB+)
- Weak management (caps rating at A)
- Lack of willingness to pay obligations (caps rating at BBB-)
- Large or chronic negative fund balance (caps rating at A+)
- Low budgetary flexibility (caps rating at A+)
- Structure imbalance (caps rating at BBB+)

Credit Rating – S&P

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Strong budgetary performance, with fiscal 2014 operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 46% of adjusted operating expenditures;
- Very strong liquidity, with total government available cash equal to 1.8x total governmental fund expenditures and 12.4x governmental debt service;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak debt and contingent liability position; and
- Strong institutional framework score

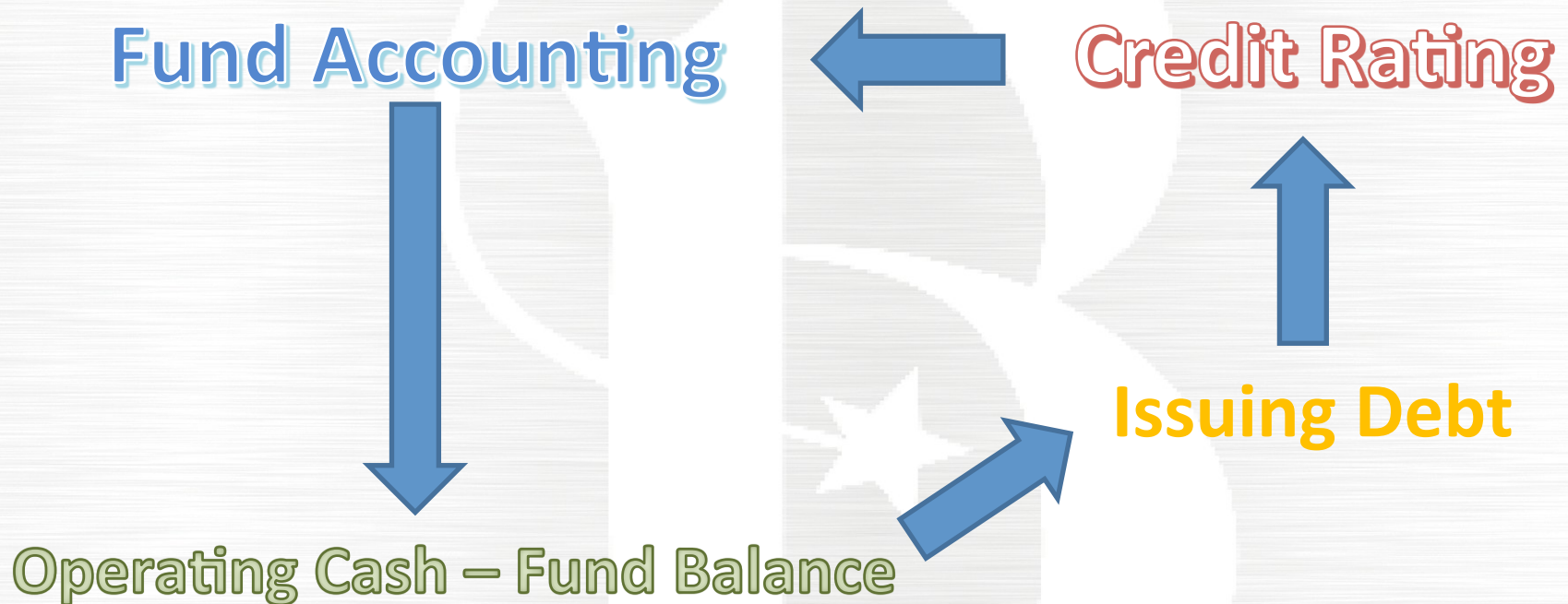
Credit Rating

Rating Agency	General Obligation	BTU	Water/ Wastewater
Moody's	Aa2	A2	Aa2
Standard & Poor's	AA	A+	AA-
Fitch	NR	A+	NR

The obligor's capacity to meet its financial commitment on the obligation is very strong.

Government Finance - 101

It all works together:



Government Finance - 101

Questions:

Contact Bryan Fiscal Services
(979) 209-5080

Bryantx.gov/fiscal-services

- Adopted Budget
- CAFR
- Checkbook of the City
- Quarterly Financials beginning 9/30/15
- Other Information

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